

eGOLI Report

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Gold prices trending upwards...

By David Levenstein - [South African Gold Coin Exchange](#)

An announcement made by the Bank of England on May 07, 1999 to sell a large share of the Bank's gold reserves in favour of assets offering a return, such as government bonds, was what induced the so-called anti-gold sentiment among European central banks. This prompted other European central banks such as those in France, Spain, the Netherlands and Portugal to sell off their reserves. At that time gold was worth around \$280 an ounce, less than a third of its current level of more than \$900.

European banks sold about 3,800 tons of gold, reaping about \$56 billion. But, due to higher prices of gold this decision has made Europe's central banks some \$40 billion poorer than they might have been. The biggest loser is the Swiss National Bank which sold 1,550 tons over the decade and at today's gold prices is \$19 billion poorer, followed by the Bank of England, which is \$5 billion poorer.

After 10 years of steady sales, Europe's gold sales are set to slow to their lowest levels since 1999, while central banks outside Europe have already become net buyers of gold. The US, the world's biggest holder of gold, decided not to follow Europe's move. Germany and Italy are the only two big European central banks which did not follow the UK, mostly because of domestic disputes about what to do with the proceeds.

Over recent months Paulson & Co., Greenlight Capital, Eton Park Capital Management, Hayman Advisors, Blue Ridge Capital Holdings and Highfields Capital Management were among those buying gold futures, shares of gold producers and even physical gold. The hedge funds are buying to protect against a falling dollar and inflation. John Burbank of hedge fund Passport Capital, who holds 9% of his fund in gold, believes the Chinese will continue buying the metal.

Philip Manduca, head of investment for U.K. money manager ECU Group, says gold will breach \$2,000 next year. That would represent a new record and an increase of more than 100 percent from the current level of \$950 an ounce.

Recently, Dr. Steve Sjoggerud who writes *True Wealth*, one of the top five financial newsletters in the world, interviewed Van Simmons, the person who invented the PCGS gold coin grading system.

In the last 23 years, PCGS have graded over 17,000,000 coins with a declared value of over \$19 billion. According to Van Simmons, the last three to five years, saw a significant increase in the number of people participating in the rare coin marketplace. "With the dollar being so volatile and currently trading at unrealistic highs – considering our government's debt, deficits, and the overall panic regarding the dollar – we see new investors moving into the rare coin market on a daily basis. Some of the financial newsletter writers have started recommending rare

coins, which is reminding old investors about coins and bringing newcomers into the market," said Van Simmons.

Gold was able to maintain its uptrend this week. The trade seemed to be reacting to a bit of safe-haven buying due to the stock market's weakness. And then in the second half of the day on Thursday 21, gold accelerated higher due to further weakening in the dollar. The dollar fell due to a recovery in sterling and due to a weaker-than-expected Philadelphia Fed index. Gold seemed to switch to reacting to inflation amid the dollar weakness. The mid-day switch from safe haven to inflation hedging has been commonplace in gold in recent weeks. Although the weaker dollar is a signal of risk appetite in the current low interest rate environment, U.S. stocks failed to rally, and the key support for the S&P is 875.50. A break of that could fuel further safe-haven gains in gold.

The gold market is expected to maintain its upward trend in the near-term and reach toward the \$970-\$1,000 levels over the next few weeks. Precious metals markets are taking off again and they are poised to re-test the previous highs.

Technicals



Gold seems to have a bullish bias at the moment. After making a low of \$730 in December, it traded back up to \$1009. Then, it made a retracement of slightly more than 50%. After that it broke to the upside of a downward channel and it now looks set to trade higher.

After witnessing the series of financial disasters caused by bankers decisions, perhaps the last place you want to go for investment advise is to you bank.

As gold begins to trend upwards, it is important to have this metal in your portfolio. If you can't handle too much risk, then buy gold coins and bullion. And, if you are prepared to invest for the long-term (2-3years) include rare coins in your portfolio. If you are prepared to take some risk then invest in a gold ETF and perhaps gold shares. And of course if you want to take advantage of leverage, then trade gold futures.

